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No.

The Supreme Court of the United States

OCTOBER TERM, 1981

STEPHEN L. BEST, LETTY SHEILD BEST, EDWARD E. FIRTH, AND ANNA WESTWOOD FIRTH,
Petitioners,

v.

UNITED VIRGINIA BANK/NATIONAL AND UNITED VIRGINIA MORTGAGE CORPORATION,
Respondents.

ON APPEAL FROM THE SUPREME COURT OF VIRGINIA

PETITION FOR WRIT OF CERTIORARI

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TO: THE HONORABLE CHIEF JUSTICE AND ASSOCIATE JUSTICES OF THE SUPREME COURT OF THE UNITED STATES

Stephen L. Best, Letty Sheild Best, Edward E. Firth, and Anna Westwood Firth, the Petitioners herein pray that a Writ of Certiorari issue to review the judgment of the Supreme Court of Virginia in the above case dated January 22, 1982, with rehearing denied on March 12, 1982.

QUESTION PRESENTED FOR REVIEW

Did the Supreme Court of Virginia violate the provisions of the Fourteenth Amendment of the United States Constitution when it held that a lender can, by agreement with a borrower, possess the unrestricted right to forbid transfer of title to property securing a debt of such lender?

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OPINION BELOW

The opinion of the Supreme Court of Virginia is reported as follows: *United Virginia Bank/National, et al.*, v. *Stephen L. Best, et al.*, 223, Va. ....., 286 S.E.2d 221 (1982). This opinion is printed in the Appendix, *infra* at page A-1

The order denying the petition for rehearing is printed in the Appendix, *infra*, at page A-5.

JURISDICTION

The decision of the Supreme Court of Virginia in *Best* was dated January 22, 1982. A timely notice and petition for rehearing were filed, and pursuant to Rule 5:53(a) of the Rules of the Supreme Court of Virginia, the clerk of that Court withheld certification of the mandate of the opinion until the petition for rehearing was disposed of. The petition for rehearing was denied on March 12, 1982.

The jurisdiction of this Court is invoked pursuant to Title 28, UNITED STATES CODE, Section 1257 (3):

> By writ of certiorari, . . . where any title, right, privilege, or immunity is specially set up or claimed under the Constitution . . . of . . . the United States.

The specific provision of the Constitution which is violated is the 14th amendment which provides:

> . . . no state shall make or enforce any law which shall abridge the privileges . . . of citizens of the United States; nor shall any state deprive any person of . . . property, without due process of law. . . .

In the present case the Bests (Purchasers) purchased property from the Firths (Borrowers) assuming a note se-

cured by a deed of trust in favor of United Virginia Bank/ National (Lender). The deed of trust provided in part:

> . . . and the said parties of the first part [Borrowers], in order more fully to protect the security of this deed of trust, do hereby agree as follows:
>
> . . . 7. The maker of the note covenants and agrees that he will not assign or transfer the property secured by this deed of trust without prior approval of the noteholder.

The Lender refused to allow the Purchasers to take title to the property and assume the deed of trust unless they agreed to increase the interest rate and pay one point. The Purchasers claimed that this was an unreasonable restraint on alienation of title, and brought suit for declaratory judgment in the Circuit Court of Fairfax County. The Circuit Court of Fairfax County found that transfer of title to the Purchasers did not impair the security of the Lender, which was a requirement under the deed of trust and ruled that the terms and conditions imposed by the Lender represented an unreasonable restraint on alienation of title. The decree of the Circuit Court is printed in the Appendix, *infra*, at page A-6.

The Lender appealed to the Supreme Court of Virginia on the principle that there was no restraint on alienation, and if there were, that the restraint was not unreasonable. Having prevailed in the lower court, the Borrowers and Purchasers defended on the basis of the lower court ruling that the Lender had not shown an impairment of security as required by the deed of trust.

In its decision the Supreme Court of Virginia decided the case on a legal principle which had never been raised

in the proceedings before the Circuit Court or the Supreme Court of Virginia, that is, that the prefatory or recital language in the deed of trust conflicted with the obligatory provision of covenant 7, and, therefore, the obligatory provision prevailed. The Court also misapplied that principle of law, as is shown later in the Petitioners' argument.

The Court did not consider whether the consent requirement of Covenant 7 constituted an unreasonable restraint on alienation.

The only conclusion that can be drawn from the decision of the Supreme Court of Virginia is that a lender has the right to forbid the conveyance of property by its borrower without restriction. This position was not advanced by the Lender, and it came as a complete suprise to the Petitioners. The decision is totally repugnant to the Fourteenth Amendment of the United States Constitution.

The Petitioners filed a petition for rehearing, pointing out that the legal principle upon which the Court decided the case had not been advanced by the Lender, that the principle was misapplied, and that reliance upon the principle would result in an unlimited and unrestricted restraint on alienation, which would be contrary to the Fourteenth Amendment of the Constitution. Essential parts of the petition for rehearing are printed in the Appendix, *infra*, at page A-10.

The petition for rehearing was summarily denied.

The Supreme Court has jurisdiction to grant certiorari as the decision was a total surprise, and could not have been anticipated on the basis of prior rulings and the principle advanced by the Lender. *Herndon* v. *Georgia*, 295, U.S. 441, 55 S.Ct. 794 (1935). The reasons why such decision could not have been anticipated are set forth in greater detail in the Petitioners' argument.

STATEMENT OF THE CASE

In August, 1972, Edward and Anna Firth (Borrowers) acquired property in Fairfax County, Virginia. In order to obtain the purchase money, they executed a promissory note, dated September 25, 1972, payable to United Virginia Bank/National (Lender), for $66,800.00, with interest at the rate of 7½% per annum. This note was secured by a deed of trust containing the following language:

> . . . and the said parties of the first part [Borrowers], in order more fully to protect the security of this deed of trust, do hereby agree as follows:
>
> . . . 7. The maker of the note covenants and agrees that he will not assign or transfer the property secured by this deed of trust without prior approval of the note holder.

The deed of trust further provided that if any covenant was violated by the Borrowers, the indebtedness would immediately become due and payable.

On March 21, 1978, Stephen and Letty Best (Purchasers) contracted to purchase the property, and informed the lender on March 23, 1978, that they would be assuming the loan. The Lender replied on March 29, 1978, that it would consider an assumption, but only if the interest rate were increased from 7½% to 9¼%, the then-prevailing rate; the Lender also stated that the Purchasers would be required to pay one point to the Lender.

The Purchasers refused to increase the interest rate or pay one point, and on May 31, 1979, the Borrowers, without the Lender's approval, conveyed the property by deed to the Purchasers. The deed provided that the conveyance was subject to a note secured by a deed of trust, which the

Purchasers expressly agreed to pay. Subsequently, on July 21, 1978, the Lender notified the Borrowers that "under the terms of the deed of trust the balance is due in full."

On July 3, 1978, the Purchasers filed a bill for declaratory judgment in the Circuit Court of Fairfax County, praying that the court declare that covenant number seven in the deed of trust was null and void; or, alternatively, if such covenant be held valid, that the court declare that consent to conveyance was unreasonably withheld and that the requirement as a condition to approval that the Purchasers agree to increase the interest rate and pay a 1% assumption fee be declared unreasonable.

The Circuit Court of Fairfax County ruled that the Lender had not shown an impairment of security as required under the deed of trust, that the withholding of consent was an unreasonable restraint on alienation, and it ordered that the Lender accept payments from the Purchasers under the existing terms and conditions of the deed of trust. The Lender appealed to the Supreme Court of Virginia.

The Supreme Court of Virginia reversed the judgment of the Circuit Court of Fairfax County, on the basis that the preamble requiring impairment of security conflicted with the unrestricted consent covenant, and therefore, was to be disregarded.

ARGUMENT IN SUPPORT OF ALLOWANCE OF WRIT

INTRODUCTION

The *Best* case arose at a time when so-called "due on sale" clauses were under consideration throughout most

states in the United States, including Virginia. Such clauses are phrased in many ways, but essentially they provide that if the owner of property encumbered by a mortgage or deed of trust undertakes to sell such property, the purchaser may not assume the existing mortgage or deed of trust without the lender's consent. Such instruments generally provide that if there is a sale, the lender has the right to accelerate the indebterness and require full payment, or such lender has the right to modify the interest rate or other terms of the indebtedness. Many courts have held that under such circumstances, a lender has the right to accelerate the indebtedness only if there is impairment of the lender's security; otherwise, the lender's refusal to allow an assumption is an unreasonable restraint on alienation. Other courts have held that the enforcement of such provisions are not an unreasonable restraint on alienation, but may be invoked for other reasons not related to the lender's security. Of course, in recent years mortgage rates have risen dramatically, and the obvious reason for accelerating the loan is so that the lender can loan back the money at much higher rates if such loan is fully paid.

The Supreme Court of Virginia heard such a case, *Lipps* v. *First American Service Corporation*, 223 Va. ....., 286 S.E.2d 215 (1982) in combination with the *Best* case. In *Lipps*, the Court considered a deed of trust entered into after enactment of a code provision, specifically §6.1-330.34 of the CODE OF VIRGINIA, which allows a lender to accelerate an indebtedness if its deed of trust contains specified language which is set out in capitals and clearly authorizes acceleration in the event of a sale. The Supreme Court of Virginia sided with those states which hold that due-on-sale clauses need not be invoked only for reasons of protecting the lender's security.

However, the deed of trust in the *Best* case predated the enactment of §6.1-330.34 and contained language wholly different from the provision required under that

Code Section. It also contained language different from most provisions under consideration in other states, in two very significant aspects.

First, the deed of trust did not state that if the Borrowers convey their property, the Lender has the right to accelerate the loan. It stated that the Borrowers may not convey their property unless the Lender consents to such conveyance.

Secondly, the deed of trust specifically stated that the purpose of the consent clause was to protect the Lender's security; and if the owners violate this consent clause, then the note is automatically accelerated. So what the Lender had done was to take a clause which would otherwise be wholly requgnant to a basic principle of law, to wit, that the owner of property has the right to convey such property, and it has clothed it with conditions that undertake to remove it from the realm of unreasonable restraint and into the realm of legitimate purpose. However, by rejecting the conditions of reasonableness which the Lender attached to its covenant, the Supreme Court of Virginia stripped it back down to what it was on its face: An absolute and unqualified restraint on alienation of title.

In short, the Supreme Court of Virginia could have ruled the same as the Circuit Court of Fairfax County: that the Lender only reserved a right to restrain alienation for reasons specifically tied to the Lender's security, and to invoke its covenant now for another purpose, to wit, to improve its financial position, was unreasonable. Instead, it dismissed the qualifying language and upheld the consent covenant without restriction. What the Lender had awkwardly tried to phrase as a reasonable "due-on-sale" clause the Court had modified into an unconstitutional "restriction-on-sale" clause.

I. The covenant forbidding transfer of title by the owner without the Lender's approval violates the rights of property owners protected by the 14th amendment to the Constitution.

One of the most jealously protected rights of citizens of the United States is the right to own property. An important corollary is the right to dispose of such property. In *Terrace* v. *Thompson*, 263 U.S. 197, 68 L.Ed. 255, 44 S. Ct. 11 (1923), the Supreme Court of the United States stated:

> The 14th amendment, as against the arbitrary and capricious or unjustly discriminatory action of the state, protects the owners in their right to lease and dispose of their land for lawful purposes. . . .

The right to own and dispose of property has heretofore been recognized in the State of Virginia. In *Dunlop* v. *Dunlop's Executors*, 144 Va. 297, 308, 132 S.E. 351 (1926), the Supreme Court of Virginia stated:

> It is unnecessary to go into at length the well-known doctrine that neither a testator in a will not a grantor in a deed can give a fee simple estate in either real or personal property and endeavor to impose upon the donee any condition incompatible with the usual and necessary incidents accompanying a fee simple estate. Among such incidents are the complete right of alienation, without let or hindrance and the liability of the property for the debts of the donee.
>
> . . . it is well settled in this country and in England, from which country we derive the principles of our jurisprudence, that a gift or grant of a beneficial estate, in fee or absolutely, whether legal or equitable, has certain legal incidents of which the estate cannot be divested, and all conditions adopted for that purpose are

necessarily repugnant, and void. Among those incidents are the donee's or grantee's power of alienating such estate, and its liability for his debts . . .

The *Best* case deals with a covenant which prevents the alienation of a fee simple estate by its owner. In rejecting the stated purpose of the preamble as being in conflict with the absolute provisions of the covenant, the Supreme Court of Virginia held, in essence, that the Lender had an unlimited and unrestricted right to forbid transfer of ownership.

Shortly before the *Best* case was argued before the Supreme Court of Virginia, a "due-on-sale" case arising in Virginia was considered by the United States Court of Appeals for the Fourth Circuit, *Williams* v. *First Federal Savings and Loan Association,* 651 F.2d 910 (4th Circuit. 1981). In upholding due-on-sale clauses in general, and refusing to limit their legitimate purpose to protection of the lender's security, the Court nonetheless distinguished the normal due-on-sale case from the clause in the *Best* case. The Court of Appeals stated, at page 925:

. . . Leaving aside, for the moment, the problems associated with changing interest rates, the homeowner may decide to move, preferring another house, or having been transferred by an employer to another part of the country. He wants to sell. *Sometimes ineptly drawn mortgages or deeds of trust make it a breach of contract to sell without the prior consent of the lender. The need to obtain the prior consent of another is a text-book example of an unreasonable restraint on alienation.*

In such a situation, while the due-on-sale clause may not be directly involved, still there is something amiss in the total scheme for dealing with any acceler-

> ation of the otherwise anticipated 30 year obligation. Whenever the thing that is wrong represents an attempted unfair advantage to the lender, the courts, not just in Virginia, but throughout the United States, seek to achieve justice by denying to the usually economically superior lender, which presumably the better bargaining position, other advantages in the package of provisions in the deed of trust concerning acceleration.
>
> . . .
>
> *{This case} . . . involved a flat restraint on alienation* . . . [Emphasis supplied].

As a footnote to the first paragraph above, the Court stated further, also at page 925:

> Even if the only penalty expressed for such a default is the creation of a right to accelerate and to compel repayment in full of the deed of trust note, the imposition in the contemplation of the law in unreasonable. A person should not be placed in a position in which he or she must violate an agreement, must dishonor his promise, to achieve a result.

Stated simply, the Fourth Circuit Court of Appeals distinguished the covenant in *Best* because it is not a "due-on-sale" clause. It is a "restriction-on-sale" clause. It is unfortunate that even after the federal court considered the issue of unreasonable restraint on alienation in the *Best* case, the Supreme Court of Virginia still ignored this issue completely.

A clue to the Court's reasoning in *Best* is found in *Lipps, supra*. There the Supreme Court of Virginia discussed Code §55-59, which governs deeds and trusts, and provides that such deed of trust "shall be construed as given to secure the performance of each of the covenants entered into by the grantor" and also provides for acceleration upon "the

breach of any of the covenants entered into or imposed upon the grantor." The Court said:

> Thus, a general acceleration clause is read into every deed of trust unless otherwise provided in the instrument . . . This acceleration clause covers the breach of any covenant imposed by the instrument on the grantor. This obviously would include a covenant not to convey the secured property without the consent of the lender, 286 S.E.2nd 215, 219.

In effect, the Court ruled that it is not against public policy to require acceleration in the payment of debt upon the violation of any covenant contained in a deed of trust. However, it did not consider whether the covenant itself was against public policy or was in violation of general principles of law.

The logical fallacy in the Court's reasoning arises from its attempt to make the phrase "due-on-sale clause" a term of art when it is not, and to argue from this "universal." This argument runs: "Due-on-sale clauses" are permitted by law. The covenant in *Lipps* is a "due-on-sale clause" and is not an invalid restraint on alienation. The *Best* covenant is a "due-on-sale clause." Therefore, the *Best* covenant is not an invalid restraint on alienation.

However, the fact is that all "due-on-sale clauses" are not automatically valid. For example, a covenant not to convey to a person of the Negro race without the Lender's permission, would be a "due-on-sale clause" under the Court's reasoning. It is obvious that this provision would be an unlawful restraint on alienation, and would be unconstitutional.

Again, it is no answer to say that a racial covenant, is against public policy and unconstitutional. The question

is whether the covenant in *Best*, which absolutely forbids alienation without consent, is against public policy and unconstitutional. In either case, whether it be a racial covenant or a consent covenant, the acceleration clause cannot validate the covenant. The covenant must be separately examined.

The Fourth Circuit in *Williams, supra*, concluded that *Best* involved "a flat restraint on alienation." Indeed, the Court concluded that the covenant was a "text-book example of an unreasonable restraint on alienation." This seems inescapable. The owners agreed they would not convey unless the lender approved, and they could not sell without dishonoring their word, unlike the parties in *Williams*. In comparing the covenant under its consideration with the covenant in *Best*, the Fourth Circuit made precisely the distinction which the Supreme Court of Virginia did not seem to grasp in considering *Lipps* and *Best* together:

> It does not require the lender's consent to a sale. It only permits the lender, at its option, to exercise the due-on-sale clause if there has been a sale, which the Potes, as homeowners, are fully entitled to make without any dishonoring of their word.

651 F.2d at 928.

II. The legal principle adopted by the Court should not have been applied in this case, and led to conclusions which were inescapably unconstitutional.

Rule 5:(42)e of the Rules of the Supreme Court of Virginia provides that the opening brief of appellant shall contain "the principles of law, the argument and the authorities relating to each question presented." Rule 5:43(d)

provides that the brief of appellee shall contain "the principles of law, the argument, and the authorities relating to each question" presented by appellant.

The Court ruled that the obligatory language of covenant 7 conflicted with the preamble which states the purpose of the covenant, and, therefore, the obligatory language must prevail. This principle of law was not presented in the brief of appellants and was never advanced by the Lender in any earlier proceeding, and, therefore, it was not addressed in the brief of appellees and was never argued on their behalf. It came as a complete surprise. The only reference to the preamble in the brief of appellants is printed in the Appendix, *Infra,* at page A-14. There the Lender did not argue that the clauses were in conflict, but that "the clauses in question protect the security of the Deed of Trust by assuring payment of the debt."

So we have the ironic situation where both the Lender and the Borrowers agreed that the two clauses can be read together in harmony, but the Court rejected that stipulation and decided that the covenant is to be interpreted without restriction. If it had ever been advanced by the Lender that the preamble was ineffective and that the Lender had the unresticted right to withhold consent, the Borrowers and Purchasers would have responded that this is unconstitutional.

In reaching its decision, the Court relied primarily on *Scott* v. *Albemarle Horse Show,* 128 Va. 517, 104 S.E. 842 (1920). In that case, the prefatory or recital language of the contract stated that Scott guaranteed to pay for certain improvements on property owned by Albemarle, provided that an option be given to him to purchase the property. The body of the contract provided that Albemarle bound itself to sell the property to Scott and that Scott agreed to take the property at a stated price in accordance with the

terms of the contract. Subsequently Albemarle sued Scott to require him to perform his obligation to purchase the property, and Scott argued that he only had an option to purchase the property, which he could or could not exercise. The trial court held that the obligatory language in the body of the contract was inconsistent with the preamble, and prevailed. The Virginia Supreme Court of Appeals disagreed, and reversed. In its decision, at page 845, it stated:

> *The contract is to be construed as a whole, and effect given to every provision thereof if possible. No word of paragraph can be omitted in construing the contract if it can be retained and a sensible construction given to the contract as a whole.* If, however, there is an inconsistency between the obligatory part of the contract and the recitals therein, the effect will be given to the obligatory part rather than to the recitals, as this is regarded as the more vital and important of the two; but *the recitals are often helpful in the construction of contracts and throw light on the meaning and intent of the parties.* . . . Looking to the obligatory part of the contract, the loan, no obligation to purchase appears to have been given to the appellant, but an option is given to the Horse Show Association to recede from the contract under given conditions and within a given time. The provision in the preamble "that an option is given him to purchase", and, in the contract, that "in consideration of the option to purchase the said property herein mentioned," are apparently inconsistent with the obligatory part of the contract by which the Horse Show Association agreed to sell the property to Scott, and Scott agreed to take the property at the price mentioned in the contract. Hence, according to the ordinary rules of construction, in the absence of explanation, the obligatory part of the contract would be binding and we should be compelled to hold that Scott had agreed to purchase the property, and not merely take an option upon it.

> But it is manifest from the terms of the contract as a whole that it was the intention of the parties to give to Scott an option to purchase the property. [Emphasis supplied.]

So, in the decision cited as primary authority for the decision in *Best*, the Court quoted the general rule that where the preamble conflicts with the obligatory provisions, the obligatory provisions prevail. But the principle does not stop there, and in that case the Court did not invoke that principle. An adjunct to the principle is that a contract must be construed as a whole, and effect must be given to every provision thereof if possible, to determine the intent of the parties. The Court gave meaning and effect to the preamble, even though it conflicted with a subsequent provision.

This principle is restated in *Ames* v. *American National Bank of Portsmouth*, 163 Va. 1, 176 S.E. 204 (1934):

> When two provisions of a contract seemingly conflict, if, without discarding either, they can be harmonized so as to effectuate the intention of the parties as expressed in the contract considered as a whole, this should be done. The presumption always is that the parties have not used words aimlessly and that no provision is merely a superfluity unless it is plainly merely a repetition.

Applying the complete principle of law to the present case, the court should not have discarded the prefatory language, to wit, "in order more fully to protect the security of this deed of trust" in favor of the obligatory language, to wit, "the maker of the note covenants and agrees that he will not assign or transfer the property secured by this deed of trust without approval of the noteholder," if the two provisions could be harmonized so as to effectuate the intention of the parties as expressed in the deed of trust

considered as a whole. The Court did acknowledge that these provisions could be harmonized, as it indicated in its decision that the prefatory language would have been given force and meaning if it had been inserted as a part of covenant 7. The Court was bothered by the fact that the language was contained in the preamble rather than in the covenant itself. However, regardless of where the language appeared, it should not have been summarily dismissed. The clear intention was that the covenant was to be exercised only for the purpose stated in the preamble. This intention must be recognized and enforced, particularly in light of the fact that the deed of trust was drawn by the lender and in case of any ambiguity is to be construed against it.

In *Williams, supra,* the Court commented on the prefatory language contained in the deed of trust in *Best:*

> Sometimes the security instrument may remark that a purpose of the due-on-sale clause is to protect the lender's security. Applying *expressio unius est exclusio alterius,* courts have foreclosed resort to the due-on-sale clause absent a showing by the lender that the security would be impaired.

651 F.2d 927. Applying the entire principle stated in the *Scott* case, *supra,* and the principle stated in *Williams,* the decision in the *Best* case should be: even if the two provisions conflict, the one provision states the purpose for the other, and the two can be harmonized; and if the Lender states one purpose, it cannot invoke the covenant for another, that is, to obtain a higher interest rate.

Although the law regarding interpretation of contracts is to be determined by the individual states, and is not governed by federal law or the Constitution, it is felt it was necessary to review the law to show why a constitutional question has been created because the Court went off on a tangent of its own.

CONCLUSION

It is submitted that in holding that a borrower and lender can lawfully covenant that a borrower cannot transfer its property without the lender's consent, the Supreme Court of Virginia violated the provisions of the Fourteenth Amendment of the United States Constitution. For this reason this Petition for a Writ of Certiorari should be granted.

Respectfully submitted,
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CERTIFICATE OF SERVICE

I hereby certify that three copies of this Petition were delivered to the office of John H. Rust, Counsel for both Respondents, 4069 Chain Bridge Road, Fairfax, Virginia 22030, this 10th day of June, 1982, pursuant to Rule 28, Paragraph 3, of the Rules of the Supreme Court.

s/GRAYSON P. HANES

APPENDIX
to
Petition for Writ of Certiorari

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PRESENT: Carrico, C.J., Cochran, Poff, Compton, Thompson, and Stephenson, JJ., and Harrison, Retired Justice

UNITED VIRGINIA BANK/NATIONAL, ET AL.

-v-

RECORD No. 790777

OPINION BY JUSTICE W. CARRINGTON THOMPSON

STEPHEN L. BEST, ET AL
January 22,1982

FROM THE CIRCUIT COURT OF FAIRFAX COUNTY
Richard J. Jamborsky, Judge

In the companion case of *Lipps* v. *First American Service Corporation*, ...Va. ....., ... S.E.2d..... (this day decided), we held that a due-on-sale acceleration clause in a security deed of trust is not an unreasonable restraint on alienation in Virginia. The lower court in this case decided to the contrary and held that the lender did not have the option to activate the acceleration clause unless it could prove that the security for its obligation was impaired. We disagree with that conclusion and reverse the judgment of the trial court.

In August, 1972, Edward and Anna Firth (Borrowers) acquired property in Fairfax County. To obtain the requisite purchase money, Borrowers executed a promissory note, dated September 25, 1972, payable to United Virginia Bank/National (Lender) for the amount of $66,800, with interest thereon at the rate of seven-and-one half percent per annum. Borrowers also executed a deed of trust conveying the subject property to secure payment of that note. The deed of trust provided in pertinent part:

> And the said parties of the first part, *in order more fully to protect the security of this Deed of Trust*, do hereby agree as follows:
>
> . . . .

> 7. The maker of the note covenants and agrees that he will not assign or transfer the property secured by this deed of trust without prior approval of the noteholder. [Emphasis added.]

The deed of trust also provided that "[s]hould there be a failure to keep and perform the aforesaid covenants or any of then . . . then the indebtedness hereby secured, both principal and interest shall immediately become due and payable."

On March 21, 1978, Stephen and Letty Best (Purchasers) contracted to purchase the property. On March 23, the Purchasers wrote the Lender requesting consent to the transfer as per the deed of trust and requesting information on an assumption. Lender replied on March 29, 1978, that it would consider an assumpiton but not at a seven-and-one-half percent interest rate. Lender notified Purchasers by letter dated April 24, 1978, that it would allow an assumption at nine-and-one-quarter percent. On May 31, 1978, Borrowers, without Lender's approval, conveyed the subject property by deed "subject to a note secured by a deed of trust." Purchasers notified Lender of the transfer and tendered the June installment. Lender returned Purchasers' check by letter on June 21,1978, and offered the Purchasers the nine-and-one-quarter percent assumption with a one point assumption fee, leaving the offer open until July 10, 1978. On July 21, 1978, Lender notified the Borrowers that "under the terms of the Deed of Trust the balance is due in full."

On July 3, 1978, Purchasers filed a bill for declaratory judgment in the lower court seeking judgment that (1) the provision in the deed of trust requiring approval by noteholder of the transfer be declared null and void; (2) alternatively, if said provision be valid, that consent not be unreasonably withheld and that the requirement as condition to approval of an increase in interest and one percent assumption fee be declared unreasonable; and (3) that the Lender be required to accept payments from the Purchasers.

After hearing evidence *ore tenus* and considering memorando filed, the lower court entered its final decree on February 22, 1979, finding, relevant to this opinion, that the provision in question constituted a restraint on alienation and that the restraint was unreasonable because the bank had failed to show that enforcement of the provision was necessary to protect its security.

Purchasers would have us construe the prefatory language of the deed of trust, "[a]nd the said parties of the first part, in order more fully to protect their security of this Deed of Trust, do hereby agree as follows," as a limitation or restriction on the triggering of Covenant 7. Under this theory before a lender could avail itself of the use of the acceleration clause, it would be compelled to show that its security had been impaired or its risk in the obligation increased. If this were true, lenders in each and every case, as a practical matter, would have to resort to litigation to activate an acceleration clause because impairment of security or increase of risk would entail factual-values judgments which only a court could provide. We do not believe this result was contemplated in the execution of the deed of trust.

If this result were intended, it would have been a simple matter to have made the proper insertion in Covenant 7. The prefatory clause quoted above comes within the description of a preamble, a recital, or a purpose clause. Under settled rules of construction, if the prefatory or recital language conflicts with the obligatory provisions of the contract, then the obligatory provisions must prevail. *Scott v. Albemarle Horse Show*, 128 Va. 517, 526, 104 S.E. 842, 845 (1920). *See also Jamison* v. *Franklin Life Insurance Co.*, 60 Ariz, 308, 317, 136 P.2d 265, 269 (1943); *Schmitt* v. *Wright*, 317 Ill. App. 384, 398, 46 N.E.2d 184, 191 (1943); *Hulin* v. *Veatch*, 148 Or. 119, 35 P.2d 253 (1934); and *Martin* v. *Rothwell*, 81 W.Va. 681, 95 S.E. 189, 190 (1918).

We hold that Covenant 7 of this deed of trust was not modified by the prefatory language described herein and

that to invoke Covenant 7 Lender did not have to allege or prove that the transfer of property impaired its security or increased its risk.

For the foregoing reasons, the judgment appealed from will be reversed and judgment entered for the appellants.

Reversed and final judgment.

VIRGINIA:

In the Supreme Court of Virginia held at the Supreme Court Building in the City of Richmond on Friday, the 12th day of March, 1982. United Virginia Bank/National, et al., Appellants, against Stephen L. Best, et al., Appellees.

Record No. 790777

Circuit Court No. C-58379

Upon a Petition for Rehearing

On consideration of the petition of the appellees to set aside the judgment rendered herein on the 22nd day of January, 1982, and grant a rehearing thereof, the prayer of the said petition is denied.

A Copy,
Teste:
s/ALLEN L. LUCY
Clerk.

VIRGINIA:

IN THE CIRCUIT COURT OF FAIRFAX COUNTY

STEPHEN L. BEST, ET AL.,
Plaintiffs,

vs.

UNITED VIRGINIA BANK/NATIONAL, ET AL.,
Defendants.

IN CHANCERY NO. 58379

FINAL DECREE

This cause came on to be heard on the 12th day of December, 1978, upon the papers formerly filed herein, evidence taken *ore tenus,* memoranda of law submitted by counsel for the parties and argument of counsel.

And it appearing to the Court that on September 25, 1972, the plaintiffs Edward E. Firth and Anna Westwood Firth conveyed certain property to George D. Hicks, Jr. and John H. Rust, Trustees, by deed of trust recorded in Deed Book No. 3700, page 609 of the land records of Fairfax County, Virginia, to secure unto United Virginia Bank of Fairfax, predecessor-in-interest to the defendant United Virginia Bank/National, the payment of a promissory note, dated September 25, 1972, in the sum of $66,800.00, with interest thereon from date at the rate of 7.5 per cent per annum.

And it further appearing to the Court from the Deed of Trust that "in order more fully to protect the security of the Deed of Trust" paragraph 7 of the Deed of Trust provides in part that "The maker of the note covenants and agrees that he will not assign or transfer the property secured by this deed of trust without prior approval of the noteholder," and that the deed of trust further provides that "Should there be a failure to keep and perform the

aforesaid covenants, or any of them, . . . then the indebtedness hereby secured, both principal and interest, shall immediately become due and payable. . . ."

And it further appearing to the Court that on March 23, 1978, the plaintiff Stephen L. Best requested the consent of the defendant to the conveyance of the property by the plaintiffs Edward E. Firth and Anna Westwood Firth to the plaintiffs Stephen L. Best and Letty Sheild Best, who desired to take over the payment of the note secured by the deed of trust.

And it further appearing to the Court that on March 29, 1978, the defendant United Virginia Bank/National advised the plaintiff Stephen L. Best that it would consider the assumption of the "real estate loan" secured by the deed of trust but that it would not be assumable at an interest rate of 7.5 per cent.

And it further appearing to the Court that on May 31, 1978, the plaintiffs Edward E. Firth and Anna Westwood Firth, without the prior approval of the noteholder, conveyed the property to the plaintiffs Stephen L. Best and Letty Sheild Best by deed recorded in Deed Book No. 4886, page 177 of the land records of Fairfax County, Virginia, the conveyance being made subject to the promissory note.

And it further appearing to the Court that the aforesaid clauses of the deed of trust constitute a restraint on alienation, to which finding the defendants United Virginia Bank/National and United Virginia Mortgage Corporation, by counsel, note their exceptions on the grounds that the same is contrary to the law and the evidence presented in the above-styled matter.

And it further appearing to the Court that the restraint on alienation is unreasonable because the defendant United Virginia Bank/National has failed to show that the enforcement of the aforesaid clauses of the said deed of trust was necessary to protect its security, to which finding the de-

fendants United Virginia Bank/National and United Virginia Mortgage Corporation, by counsel, note their exceptions on the grounds that the same is contrary to the law and the evidence presented in the above-styled matter.

And it further appearing to the Court that the plaintiffs Stephen L. Best and Letty Sheild Best were willing and wanted to assume the obligation to pay the note secured by the deed of trust, to which finding the defendants United Virginia Bank/National and United Virginia Mortgage Corporation, by counsel, note their exceptions on the grounds that the same is contrary to the law and the evidence presented in the above-styled matter.

And it further appearing to the Court that the sole reason for the defendant United Virginia Bank/National's refusal to approve transfer of ownership and assumption of the note was to obtain an increase in the rate of interest and a one per cent transfer fee, to which finding the defendants United Virginia Bank/National and United Virginia Mortgage Corporation, by counsel, note their exceptions on the grounds that the same is contrary to the law and the evidence presented in the above-styled matter.

And it further appearing to the Court that Virginia is a deed of trust State, and that if defendant United Virginia Bank/National wanted to reserve the right to increase the interest rate, the provision could have been specifically stated in the deed of trust, and that the parties thereto could have contracted for such a provision and that their failure to do so leads the Court to conclude that the plaintiffs are entitled to the relief prayed for, to which finding the defendants United Virginia Bank/National and United Virginia Mortgage Corporation, by counsel, note their exceptions on the grounds that the same is contrary to the law and the evidence presented in the above-styled matter.

And it further appearing to the Court that the aforesaid findings are limited to the narrow facts of this case and the deed of trust in this case.

UPON CONSIDERATION WHEREOF, it is, therefore, ADJUDGED, ORDERED and DECREED that the aforesaid provisions of the deed of trust recorded in Deed Book No. 3700, page 609 of the land records of Fairfax County, Virginia, constitute a restraint on alienation.

And it is further ADJUDGED, ORDERED and DECREED that the restraint on alienation is unreasonable because the defendant United Virginia Bank/National has failed to show that enforcement of the aforesaid clauses of said deed of trust was necessary to protect its security.

And it is further ADJUDGED, ORDERED and DECREED that Edward E. Firth and Anna Westwood Firth had the right to convey ownership of their property to Stephen L. Best and Letty Sheild Best upon the conditions as set forth in the deed from the Firths to the Bests, and that United Virginia Bank/National is obligated to accept payments on the note from the Bests in accordance with its terms, without any increase in the interest rate and without the payment of a one percent fee.

And it is further ADJUDGED, ORDERED and DECREED that the transcript of the hearing before this Court is directed to be made a part of the record in the above-styled matter, provided the transcript is filed in the office of the Clerk of this Court within 60 days of the entry of this Final Decree.

AND THIS DECREE IS FINAL.

ENTER: February 22, 1979

Date: February 22, 1979 /s/ RICHARD J. JAMBORSKY,
Judge

EXCERPTS FROM PETITION FOR REHEARING

II. *IF THE COURT INTENDS TO BASE ITS DECISION ON THE PRINCIPLE THAT THERE IS A CONFLICT BETWEEN THE RECITAL LANGUAGE AND THE OBLIGATORY LANGUAGE IN THE DEED OF TRUST, THE BESTS AND THE FIRTHS SHOULD HAVE AN OPPORTUNITY TO BRIEF AND ARGUE THE APPLICATION OF THIS PRINCIPLE TO THE FACTS.*

Rule 5:42(e) of the Rules of the Supreme Court of Virginia provides that the opening brief of appellant shall contain "the principles of law, the argument and the authorities relating to each question presented." Rule 5:43(d) provides that the brief of appellee shall contain the principles of law, the argument, and the authorities relating to each question presented by appellant.

The Court ruled that the obligatory language of covenant 7 conflicted with the preamble which states the purpose of the covenant, and, therefore, the obligatory language must prevail. This principle of law was not presented in Appellant's Brief and was never advanced by the Lenders in any earlier proceeding, and, therefore, it was not addressed in Appellees' Brief and was never argued on their behalf. It came as a complete surprise.

The one question considered in the *Best* opinion was decided on a ground not raised and cases not cited in either brief. Purchasers should have the opportunity to brief and argue this principle and its application to the facts.

III. *THE LEGAL PRINCIPLE ADOPTED BY THE COURT SHOULD NOT HAVE BEEN APPLIED IN THIS CASE*

[Argument follows.]

IV. *A DECISION IN THIS CASE THAT THE COVENANT OVERRIDES THE PREAMBLE BECAUSE OF A CONFLICT IN THE TWO PROVISIONS RESULTS IN PERMITTING THE LENDER TO INVOKE AN UNLIMITED AND UNRESTRICTED RESTRAINT ON ALIENATION, WHICH IS CONTRARY TO THE LAW OF VIRGINIA AND THE CONSTITUTION OF THE UNITED STATES.*

If the Court decides that the two provisions in question cannot be harmonized, then it must conclude that covenant 7 is an unlimited and unrestricted restraint on the Borrowers' right to convey title. It has never been submitted as a principle of law by the Lender, and it would be ludicrous to argue, that an unlimted or unrestricted alienation on the restraint of title is lawful. Such is clearly contrary to the laws of Virginia and the Constitution of the United States.

In *Dunlop* v. *Dunlop's Executors*, 144 Va. 297, 308, 132 S.E. 351 (1926), the Court said:

> It is unnecessary to go into at length the well-known doctrine that neither a testator in a will nor a grantor in a deed can give a fee simple estate in either real or personal property and endeavor to impose upon the donee any condition incompatible with the usual and necessary incidents accompanying a fee simple estate. Among such incidents are the complete right of alienation, without let or hindrance and the liability of the property for the debts of the donee.
>
> . . . it is well settled in this country and in England, from which country we derive the principles of our jurisprudence, that a gift or grant of a beneficial estate, in fee or absolutely, whether legal or equitable, has certain legal incidents of which the estate cannot be divested, and all conditions adopted for that purpose are

> necessarily repugnant, and void. Among those incidents are the donee's or grantee's power of alienating such estate, and its liability for his debts
>
> . . .
>
> The reason for this doctrine or principle is the repugnancy of such restraints upon the ordinary rights of property, and that property would thereby be withdrawn from the ordinary rules and channels of commerce and trade.

In *Terrace* v. *Thompson*, 263 U.S. 197, 68 L.ED. 255, 44 S.Ct. 11 (1923), the Supreme Court of the United States stated:

> The 14th amendment, as against the arbitrary and capricious or unjustly discriminatory action of the state, protects the owners in their right to lease and dispose of their land for lawful purposes . . .

Clearly, §55-59 of the Code of Virginia cannot be interpreted to permit a secured lender to enforce any covenant it chooses to put in its deed of trust. The covenant may not violate the legal rights of a borrower, including his constitutional rights. It was never submitted as a legal principle by the Lender that it had such right. However, if the Court applies the legal principle that there are conflicting provisions which cannot be harmonized, it must find that the covenant, which is unlimited and unrestricted, can be enforced for any purpose. Such a covenant is a flat restraint on alienation, and is unconstitutional.

Under the language of the deed of trust in question, if covenant 7 can be enforced, it can only be enforced in one of two ways:

1. For any purpose, which would amount to a flat restraint or alienation, and would be unlawful; or

2. For the purpose stated in the preamble, and that purpose only, which would preclude enforcement for the purpose of increasing the interest rate.

Under either interpretation, the decision of the trial court should be affirmed.

EXCERPT FROM BRIEF OF APPELLANTS' Page 28.

The preamble to that portion of the Deed of Trust which contains Paragraph 7 provides that the covenant in question was given "in order more fully to protect the security of this Deed of Trust." A at 96. It is clearly evident that the clauses in question protect the security of the Deed of Trust by assuring payment of the debt. As was stated by the Court in *Stith* v. *Hudson City Savings Institution*, 63 Misc. 2d 863, 313 N.Y.S.2d 804 (1970),

> Acceleration provisions in mortgages are intended and designed *for the protection of the mortgagee and to make the security more effective* and such was the purpose of the clause under consideration. It is common knowledge that "due-on-sale" provisions similar to that here employed are often insisted on by loaning institutions. They thereby reserve to themselves the right in the event of sale, to determine whom they wish to accept as a debtor and owner of the security, and to reappraise the desirability of the loan originally made from the standpoint of the then value and condition of the security covered and the interest rate obtainable in the current money market. . . . 313 N.Y.S.2d at 808 (citations omitted) (emphasis added).

81-2279

No. ——

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1981

STEPHEN L. BEST, LETTY SHEILD BEST,
EDWARD E. FIRTH, and ANNA WESTWOOD FIRTH,
Petitioners,

v.

UNITED VIRGINIA BANK/NATIONAL and
UNITED VIRGINIA MORTGAGE CORPORATION,
Respondents.

On Petition for a Writ of Certiorari to the Supreme Court of Virginia

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RESPONDENTS' BRIEF IN OPPOSITION

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QUESTION PRESENTED

Whether the Supreme Court of Virginia was correct in holding that, in Virginia, a lender may reserve by contract the right to accelerate the debt due to it upon sale or conveyance of the property securing that debt.

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IN THE

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STEPHEN L. BEST, LETTY SHEILD BEST,
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v.

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UNITED VIRGINIA MORTGAGE CORPORATION,
Respondents.

On Petition for a Writ of Certiorari to the Supreme Court of Virginia

---

RESPONDENTS' BRIEF IN OPPOSITION

To: The Honorable Chief Justice and Associate Justices of the Supreme Court of the United States

The Respondents, United Virginia Bank/National and United Virginia Mortgage Corporation, respectfully pray that this Court deny the Petition for Certiorari seeking review of the judgment of the Supreme Court of Virginia in the above entitled case, decided January 22, 1982, with rehearing denied on March 12, 1982.

JURISDICTION

It is well-settled that to receive review of a state court decision a petitioner must demonstrate that he has presented a substantial federal question in a timely manner to the state court.[1]

> The long-established general rule is that the attempt to raise a federal question after judgment, upon a petition for rehearing, comes too late, unless the court actually entertains the question and decides it.[2]

The only exception to this rule is where the constitutional question arises out of the state court's unanticipated decision which threatens constitutionally protected rights.[3]

The Petitioners failed to raise any federal question before the Supreme Court of Virginia prior to its judgment. They now seek to confer jurisdiction upon this Court solely on the basis that the decision below "was a total surprise, and could not have been anticipated on the basis of prior rulings and the principle advanced by the Lender."[4] The Petitioners state that the holding of the Supreme Court of Virginia that the obligatory language in a contract controls where such language conflicts with prefatory language in the same contract had not been raised in the proceedings below.[5] However, the Petitioners addressed this issue at length in their brief before the Supreme Court of Virginia, arguing that the prefatory language constituted a limitation upon the provisions of the deed of trust.[6] The Respondents answered this contention in their reply brief, arguing that the

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[1] *See* Rule 21.1(h), Rules of the Supreme Court of the United States.

[2] Herndon v. Georgia, 295 U.S. 441, 443 (1935).

[3] *Id.* at 443-44.

[4] Petition at 7.

[5] Petition at 6-7.

[6] Brief of Appellees at 3-6.

Petitioner's "interpretation contravenes well established principles for the construction of written instruments, accepted rules of syntax, and common sense." [7] Much of the oral argument before the Supreme Court of Virginia focused on the construction of the language in the deed of trust. Thus, the issues upon which the Petitioners claim surprise were presented, briefed and argued below. Any constitutional claim which the Petitioners desire to present should have been raised at that time.

Secondly, the exception created in *Herndon v. Georgia* [8] contemplates that the finding of the state court must represent a substantial departure from precedent and prior construction to constitute an "unanticipated ruling." [9] In *Herndon*, this Court dismissed the appeal for want of jurisdiction on the grounds that Herndon could not plead ignorance of prior decisions in Georgia and "was therefore, bound to anticipate the probability of a similar ruling in his own case, and preserve his right to a review here by appropriate action upon the original hearing in the Court below." [10] In the instant case, the Supreme Court of Virginia construed the deed of trust in accordance with its previous decision in *Scott v. Albemarle Horse Show*,[11] which stated:

> If, however, there is an inconsistency between the obligatory part of the contract and the recitals therein, effect will be given to the obligatory part rather than to the recitals, as this is regarded as the more vital and important of the two. . .[12]

Thus, the ruling in the instant case as to which the Petitioners claim surprise is in accord with prior decisions

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[7] Reply Brief of Appellants at 7. *See generally* Reply Brief of Appellants at 5-7.

[8] 295 U.S. 441 (1935).

[9] 295 U.S. at 444-46.

[10] 295 U.S. at 446.

[11] 128 Va. 517, 104 S.E. 842 (1920).

[12] 128 Va. at 526, 104 S.E. at 845.

of the state court below and does not represent a new construction of the legal principles involved nor does it constitute a departure from precedent. Therefore, the Petitioners were bound to anticipate the ruling in this case and have failed to preserve any right to review here.

The question presented for review by this Court is essentially a question of state contract and property law. Notwithstanding the characterization of the question presented by the Petitioners, at no time have the Respondents asserted any right to forbid the transfer of title to the real property securing the debt to the lender. In fact, the property was transferred from the Firths to the Bests on May 31, 1978, and the Bests have had the unrestricted dominion, control and possession of the property since that date. The Respondents have simply asserted their contractual right to accelerate the indebtedness when a transfer was made in disregard of that contract. That assertion raises no federal question.

This Court has consistently upheld the right of a state court to construe the contract and property laws of its state without review by this Court unless the construction creates an intrusion upon constitutional rights so severe that federal review is necessary.[13] No such intrusion has been demonstrated in this case. The construction of Virginia contract and property law in this case clearly is an adequate and independent state ground of decision precluding the assertion of jurisdiction by this Court.[14]

It is, therefore, respectfully requested that this Court deny certiorari in the instant case for want of jurisdiction, on the grounds that no substantial federal question has been presented, no federal question was presented in a timely fashion in the court below, and there exists an adequate and independent state ground for the decision below.

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[13] Indiana *ex rel.* Anderson v. Brand, 303 U.S. 95 (1937).

[14] Murdock v. Mayor of Memphis, 87 U.S. (20 Wall.) 590 (1875).

ARGUMENT

It is well settled that contractual provisions permitting a lender to accelerate its debt upon transfer of the property securing that debt do not constitute unreasonable or unconstitutional restraints upon the alienation of property.[15] In *Williams v. First Federal Savings & Loan Association*,[16] the Court of Appeals for the Fourth Circuit held

> Nevertheless, the lenders have legal rights, too. If they have complied with all requirements of the law, they are entitled to enforce their due-on-sale clauses, for they are simply not restraints on alienation.[17]

The imposition of a due-on-sale clause is not a restraint on the borrower's right to alienate his property, rather it represents a contest between competing interests that is best left to the marketplace to determine, and this Court should avoid taking sides in a battle of economic forces.[18]

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[15] *See, e.g.*, Williams v. First Federal Savings & Loan Association, 651 F.2d 910 (4th Cir. 1981); Malouff v. Midland Federal Savings & Loan Association, 181 Colo. 294, 509 P.2d 1240 (1973); Occidental Savings & Loan Association v. Venco Partnership, 206 Neb. 469, 293 N.W.2d 843 (1980); Crockett v. First Federal Savings & Loan Association, 289 N.C. 620, 224 S.E.2d 580 (1976); Gunther v. White, 489 S.W.2d 529 (Tenn. 1973); Redd v. Western Savings & Loan Co., 50 U.S.L.W. 2727 (Utah May 21, 1982); Lipps v. First American Service Corp., 223 Va. —, 286 S.E.2d 215 (1982).

[16] 651 F.2d 910 (4th Cir. 1981). The Petitioners' reliance upon the *dicta* concerning the instant case contained in the *Williams* decision is misplaced. Petition at 14. This argument was presented to the court below, was fully argued before that court, and was rejected by that court.

[17] 651 F.2d at 926.

[18] *Accord*, Redd v. Western Savings & Loan Co., 50 U.S.L.W. 2727 (Utah May 21, 1982).

In *Fidelity Federal Savings & Loan Association v. de la Cuesta*,[19] this Court upheld the Federal Home Loan Bank Board's due-on-sale regulations. This Court expressly declined to interfere with the economic forces in question, holding

> As Judges, it is neither our function, nor within our expertise, to evaluate the economic soundness of the Board's approach. In promulgating the due-on-sale regulation, the Board reasonably exercised the authority, given it by Congress, so as to ensure the financial stability of "local mutual thrift institutions in which people . . . invest their funds and . . . [which] provide for the financing of homes."[20]

It is submitted that this Court should exercise similar restraint in this case.

CONCLUSION

For the reasons stated above, the Petition for Writ of Certiorari should be denied.

Respectfully submitted,

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[19] No. 81-750 (U.S. June 28, 1982).

[20] *Id.* at 27.